

Comptroller's Quarterly

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BORROWING REDUCES PAYMENT CYCLE

The state issued \$1.0 billion in short-term borrowing certificates at the end of November, 2005 as part of a plan to help alleviate General Revenue Fund (GRF) cash flow difficulties and to reduce payment delays for the state's vendors and payees, with an emphasis on health care providers. The Comptroller's Office (IOC) dedicated the short-term borrowing proceeds to the large backlog of unpaid Medicaid claims in order to generate federal matching reimbursements and then applied those receipts to the remaining backlog of payables. With the borrowing and an overall growth in base revenues over the first six months of the fiscal year, there was a dramatic improvement in the payment cycle. The cash backlog was reduced from \$2.744 billion immediately prior to the borrowing to \$906 million by the end of December (down \$1.838 billion) while voucher inventory declined by 90%. The delay in releasing payments (IOC only) dropped from 37 business days to 21 business days. Significantly, the total number of vendor entities and other payees awaiting payments decreased from more than 145,000 to only about 5,500 during this timeframe.

While the short-term borrowing initiative, a combined effort of IOC, the Governor's office and the Treasurer's office, has had a major impact, a cash payables backlog of \$906 million remained at the end of the quarter. As can be seen in the accompanying chart, the adjusted General Revenue Fund balance was a negative \$708 mil-

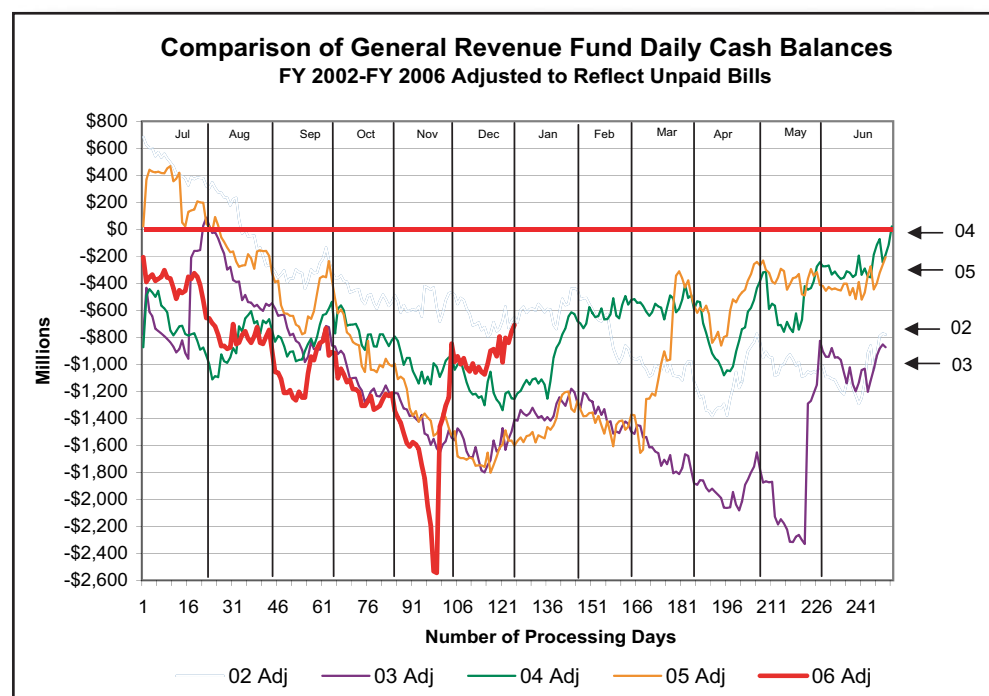
lion. The GRF cash balance on December 31, 2005 was \$198 million with a backlog of \$906 million. It should be noted that the GRF balance includes \$195 million in chargeback and fee transfers which have not been recognized by the State Treasurer due to concerns about the constitutionality of these transactions.

Due to the short-term borrowing, base spending when compared to the first half of fiscal year 2005 has increased \$1.6 billion with \$1.3 billion of the increase in Medicaid expenditures. With the increased Medicaid spending, federal revenues grew significantly.

Base Revenues

Through the first six months of fiscal year 2006, base revenues increased \$528 million or 4.3% from \$12.391 billion to \$12.919 billion. This growth was due to increases in economic driven revenues and federal sources which were partially offset by a decline in transfers. As previously referenced, the state issued \$1 billion in short-term borrowing certificates for deposit into GRF in November. As a result, total revenues were up \$1.528 billion.

All other transfers dropped \$665 million due primarily to the one-time transfer last year of \$433 million from the Medicaid



Provider Relief Fund to pay debt service on the June 2004 short-term borrowing of \$850 million. There were fund sweeps of approximately \$238 million last year compared to \$70 million so far this year. Also, there were \$53 million in charge-back transfers by the end of the second quarter and none so far this year. The decline in other transfers was partially offset by increased transfers from gaming sources. Lottery Fund transfers were up \$50 million and State Gaming Fund transfers increased by \$27 million. It should be noted that riverboat gambling tax rates were reduced to fiscal year 2003 levels with the net result that total riverboat gambling revenues are down \$53 million. The portion that was deposited directly into the Common School Fund is no longer collected; however, a "hold harmless" provision was included in the fiscal year 2006 budget agreement so that total gaming revenues should not decrease significantly for the year.

Cash receipts from state sources increased \$393 million or 4.5% and were driven by growth in economic revenues. Individual income tax receipts increased \$216 million or 6.5% and corporate income taxes were up \$135 million or 32.2%. Sales taxes grew by \$208 million or 6.2%. The growth in sales tax revenues was obviously impacted by a spike in gasoline prices. Gasoline prices have moved downward recently which could account for minimal growth in December sales tax receipts. All other receipt sources were down \$166 million due to expected declines in cigarette taxes, riverboat gambling taxes, and Cook County intergovernmental transfers. Last year there was a one-time \$50 million diversion of cigarette taxes to the General Funds, riverboat gambling tax rates changed as stated earlier (direct cash receipts are down \$80 million), and the Cook County transfer agreement was reduced this year with receipts down \$104 million.

Federal sources increased \$723 million or 34.3% due primarily to the growth in

Medicaid spending that was afforded by the short-term borrowing.

Base Expenditures

Through December, base General Funds spending increased \$1.608 billion or 12.8%. As expected, there was a large increase in Medicaid spending over the first half of the fiscal year due to the IOC strategy to decrease the backlog of payments to Medicaid providers, enabled by the \$1 billion in short-term borrowing. General Funds appropriations are up \$571 million or 2.4% over last year. Through the first half of fiscal year 2006, 52.3% of General Funds appropriations have been expended compared to 47.6% last year.

The increase in both the amount and pace of spending is directly attributable to the planned jump in Medicaid grant spending by the Department of Healthcare and Family Services. Medicaid grant spending of \$4.189 billion is up \$1.291 billion or 44.5% from last year. Medicaid appropriations in fiscal year 2006 have increased \$1.203 billion or 23.9%. This increase follows a \$505 million decrease from the year before that was enabled by short-term borrowing utilized in fiscal year 2004 to take advantage of increased reimbursement rates.

In the first six months of fiscal year 2006, 66.8% of Medicaid appropriations from GRF were expended. Due to the acceleration of Medicaid payments in the first half of fiscal year 2006, only \$2.073 billion of Medicaid appropriations for fiscal year 2006 remain. General Revenue Fund spending for Medicaid averaged \$698 million per month in the first half of the fiscal year. Absent additional appropriations, average monthly spending for the second half of the fiscal year is estimated to be only \$345 million.

Transfers out of \$1.285 billion in the first six months of fiscal year 2006 are \$892 million or 41.0% less than the \$2.177 billion transferred in the first half last fiscal year. Last fiscal year, \$1.370 billion was

transferred to the General Obligation B. R. & I. Fund compared to \$514 million in the first half this year. The \$856 million difference in the two years is due primarily to the repayment of fiscal year 2004 borrowing in fiscal year 2005.

Other areas of spending which decreased from last year include teachers retirement grants (down \$143 million or 32.0%) and all other grants (down \$2 million or 0.3%).

Other areas of spending which increased include State Board of Education grants (up \$102 million or 3.9%), Human Services grants (up \$54 million or 3.5%), higher education grants (up \$39 million or 10.8%), higher education operations (up \$107 million or 13.3%) and other agency operations (up \$12 million or 0.5%).

The decline in teachers retirement grant spending and the small increase in agency operations are due primarily to decreased funding for the pension systems. It should also be noted that the large increase in higher education operations will not be sustained as overall appropriations are down for the year, again due in part to lower pension funding.

What Lies Ahead

Spending for Medicaid and higher education operations will decline in the remaining months of the fiscal year as the appropriation authority for these functions diminishes. This slowdown will serve to temporarily alleviate pressure on the cash strapped General Revenue Fund but will also lead to a renewed buildup in the backlog of Medicaid payments awaiting processing at the Department of Healthcare and Family Services. Spending pressures will also increase as the state begins reserving revenues for the repayment of the short-term borrowing which by law must be completed by the close of the fiscal year. The net effect is that backlogs are likely to grow and cash flow difficulties will persist through the remainder of this fiscal year. ■

GENERAL FUNDS TRANSACTIONS
(Dollars in Millions)

	December		Change	Six Months		Change	
	2004	2005		FY 2005	FY 2006	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 191	\$ 537	\$ 346	\$ 182	\$ 497	\$ 315	173.1 %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 602	\$ 629	\$ 27	\$ 3,337	\$ 3,553	\$ 216	6.5 %
Corporate	161	215	54	419	554	135	32.2
Total, Income Taxes	763	844	81	3,756	4,107	351	9.3
Sales Taxes	589	594	5	3,333	3,541	208	6.2
Other Sources:							
Public Utility Taxes	117	112	(5)	511	541	30	5.9
Cigarette Taxes	33	33	0	250	200	(50)	(20.0)
Inheritance Tax (gross)	25	27	2	138	134	(4)	(2.9)
Liquor Gallonage Taxes	13	17	4	76	79	3	3.9
Insurance Tax and Fees	74	63	(11)	168	147	(21)	(12.5)
Corporation Franchise Tax and Fees	11	13	2	87	92	5	5.7
Investment Income	6	11	5	28	65	37	132.1
Cook County IGT	23	0	(23)	193	89	(104)	(53.9)
Riverboat Gambling Taxes	15	0	(15)	84	4	(80)	(95.2)
Other	26	43	17	205	223	18	8.8
Total, Other Sources	343	319	(24)	1,740	1,574	(166)	(9.5)
Total, Cash Receipts	\$ 1,695	\$ 1,757	\$ 62	\$ 8,829	\$ 9,222	\$ 393	4.5 %
Transfers In:							
Lottery Fund	\$ 65	\$ 45	\$ (20)	\$ 280	\$ 330	\$ 50	17.9 %
State Gaming Fund	60	70	10	318	345	27	8.5
Other Funds	64	20	(44)	856	191	(665)	(77.7)
Total, Transfers In	\$ 189	\$ 135	\$ (54)	\$ 1,454	\$ 866	\$ (588)	(40.4) %
Total, State Sources	\$ 1,884	\$ 1,892	\$ 8	\$ 10,283	\$ 10,088	\$ (195)	(1.9) %
Federal Sources	\$ 463	\$ 406	\$ (57)	\$ 2,108	\$ 2,831	\$ 723	34.3 %
Total, Base Revenues	\$ 7	\$ 2,298	\$ 2,349	\$ 12,391	\$ 12,919	\$ 528	4.3 %
Short-Term Borrowing	0	0	0	0	1,000	1,000	N/A
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 47	\$ 2,298	\$ (493)	\$ 12,667	\$ 14,195	\$ 1,528	12.1 %
Expenditures:							
Awards and Grants:							
State Board of Education	\$ 668	\$ 732	\$ 64	\$ 2,647	\$ 2,749	\$ 102	3.9 %
Healthcare and Family Services (Public Aid)	515	308	(207)	2,898	4,189	1,291	44.5
Human Services	235	241	6	1,542	1,596	54	3.5
Teachers Retirement	81	51	(30)	447	304	(143)	(32.0)
Higher Education	25	30	5	362	401	39	10.8
All Other Grants	110	132	22	670	668	(2)	(0.3)
Total, Awards and Grants	1,634	1,494	(140)	8,566	9,907	1,341	15.7
Operations:							
Other Agencies	406	410	4	2,473	2,485	12	0.5
Higher Education	167	156	(11)	806	913	107	13.3
Total, Operations	573	566	(7)	3,279	3,398	119	3.6
Regular Transfers Out	182	145	(37)	2,177	1,285	(892)	(41.0)
All Other (Includes Prior Year Adjustments)	1	0	(1)	51	6	(45)	(88.2)
Vouchers Payable Adjustment	(103)	144	247	(1,475)	(390)	1,085	N/A
Total, Base Expenditures	\$ 2,287	\$ 2,349	\$ 62	\$ 12,598	\$ 14,206	\$ 1,608	12.8 %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	2,287	2,349	62	12,598	14,206	1,608	12.8
AVAILABLE CASH BALANCE, ENDING	\$ 251	\$ 486	\$ 235	\$ 251	\$ 486	\$ 235	93.6 %

GENERAL REVENUE FUND TRANSACTIONS
(Dollars in Millions)

	December		Change	Six Months		Change	
	2004	2005		FY 2005	FY 2006	Amount	Percent
AVAILABLE CASH BALANCE, BEGINNING	\$ 13	\$ 215	\$ 202	\$ 24	\$ 198	\$ 174	N/A %
Revenues:							
State Sources:							
Cash Receipts:							
Income Taxes:							
Individual	\$ 558	\$ 583	\$ 25	\$ 3,093	\$ 3,293	\$ 200	6.5 %
Corporate	149	200	51	388	514	126	32.5
Total, Income Taxes	707	783	76	3,481	3,807	326	9.4
Sales Taxes	441	445	4	2,500	2,654	154	6.2
Other Sources:							
Public Utility Taxes	105	101	(4)	457	487	30	6.6
Cigarette Taxes	22	21	(1)	161	130	(31)	(19.3)
Inheritance Tax (gross)	25	27	2	138	134	(4)	(2.9)
Liquor Gallonage Taxes	13	17	4	76	79	3	3.9
Insurance Tax and Fees	74	63	(11)	168	147	(21)	(12.5)
Corporation Franchise Tax and Fees	11	13	2	87	92	5	5.7
Investment Income	6	11	5	28	65	37	132.1
Cook County IGT	23	0	(23)	193	89	(104)	(53.9)
Other	26	43	17	202	219	17	8.4
Total, Other Sources	305	296	(9)	1,510	1,442	(68)	(4.5)
Total, Cash Receipts	\$ 1,453	\$ 1,524	\$ 71	\$ 7,491	\$ 7,903	\$ 412	5.5 %
Transfers In	63	20	(43)	813	191	(622)	(76.5)
Total, State Sources	\$ 6	\$ 1,544	\$ 1,51 28	\$ 8,304	\$ 8,094	\$ (210)	(2.5) %
Federal Sources	463	406	(57)	2,108	2,831	723	34.3
Total, Base Revenues	\$ 79	\$ 1,950	\$ 1,9 (29)	\$ 10,412	\$ 10,925	\$ 513	4.9 %
Short-Term Borrowing	0	0	0	0	1,000	1,000	N/A
Transfer from Budget Stabilization Fund	0	0	0	276	276	0	0.0
Total, Revenues	\$ 1,979	\$ 1,950	\$ (29)	\$ 10,688	\$ 12,201	\$ 1,513	14.2 %
Expenditures:							
Awards and Grants:							
Public Aid	\$ 515	\$ 308	\$ (207)	\$ 2,898	\$ 4,189	\$ 1,291	44.5 %
Elementary and Secondary Education	363	339	(24)	1,094	853	(241)	(22.0)
Human Services	235	241	6	1,542	1,596	54	3.5
Higher Education	25	30	5	362	401	39	10.8
Children and Family Services	64	78	14	326	329	3	0.9
All Other Grants	66	61	(5)	429	377	(52)	(12.1)
Total, Awards and Grants	1,268	1,057	(211)	6,651	7,745	1,094	16.4
Operations:							
Other Agencies	406	410	4	2,473	2,485	12	0.5
Higher Education	167	156	(11)	764	858	94	12.3
Total, Operations	573	566	(7)	3,237	3,343	106	3.3
Regular Transfers Out	228	200	(28)	2,223	1,497	(726)	(32.7)
All Other (Includes Prior Adjustments)	1	0	(1)	51	6	(45)	(88.2)
Vouchers Payable Adjustment	(103)	144	247	(1,475)	(390)	1,085	N/A
Total, Base Expenditures	\$ 1,967	\$ 1,967	\$ 0	\$ 10,687	\$ 12,201	\$ 1,514	14.2 %
Transfers to Repay Short-Term Borrowing	0	0	0	0	0	0	0.0
Total, Expenditures	1,967	1,967	0	10,687	12,201	1,514	14.2
AVAILABLE CASH BALANCE, ENDING	\$ 25	\$ 198	\$ 173	\$ 25	\$ 198	\$ 173	692.0 %